

IFRS Convergence:

What it means to you!

An Honors Thesis (HONRS 499)

by

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Abstract

This collaborative project, consisting of a paper and a brief presentation to the Muncie Small Business Council, is meant to provide information about the potential convergence of the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). This convergence would change the way accountants in the U.S. do their jobs. We have researched this topic from various sources and have written a paper describing what the convergence is, what it would mean to different entities, and how these entities are or should prepare. My focus in the paper was the preparation section. The goal of this paper is to educate any and all interested parties in a portion of the changes coming to the accounting profession.

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Introduction

Since the 1930s, the United States of America has been developing U.S. Generally Accepted Accounting Principles (U.S. GAAP). Then on November 14, 2008, the Security Exchange Commission (SEC) issued its roadmap. In the document, the SEC stipulated how and when U.S. publicly held companies might be permitted/required to adopt a different standard of accounting (Langmead and Soroosh 24). This movement and/or convergence of U.S. GAAP to International Financial Reporting Standards, IFRS, would be the most important development in U.S. accounting during the last seventy years, and would have a serious impact on the business world. Yet, most individuals in the business and collegiate communities are unfamiliar with IFRS and what the conversion would mean to them. This paper will examine the history of accounting standards within the U.S. and the world, the pros and cons to convergence, and the preparation for convergence.

History and Roles

Before examining what IFRS and U.S. GAAP are and where they are going, it is important to understand their origins. This section will examine the history and roles of U.S. GAAP and the Financial Accounting Standards Board (FASB), IFRS and the International Accounting Standards Board (IASB), and the possible convergence of the two standards.

U.S. GAAP and FASB

Before the 1930s, there were no U.S. standards governing corporate financial reporting. The lack of a governing body meant that the accounting profession had no authority to establish rules for businesses to use for their financial statements (Kieso 5-6).

However, the abuses in the stock exchange practices, in financing securities, and the defects in corporate reporting, led the U.S. Congress to enact the Securities Act of 1933, the Securities Act of 1934, and several other securities laws. The new legislations required companies whose securities were traded publicly to register and file periodic reports with the SEC, which was created under the 1934 Act. These laws and regulations were intended to provide investors information about the company that was offering securities (Kieso 6).

The SEC was given the power to set up U.S. generally accepted accounting principles for companies subject to the newly established federal securities laws. However, it has usually allowed the private sector to establish the accounting standards through the AICPA (American Institute of Certified Public Accountants). The SEC felt that the private sector had the proper knowledge, resources and talents to create fair and unbiased principles (Kieso 6-7).

In 1939, the SEC urged the AICPA to create the Committee on Accounting Procedure (CAP). The CAP was given the responsibility for determining accounting principles and for issuing pronouncements on accounting principles. The committee was intended to be the principal source of the “substantial authoritative support” for accounting principles sought by the SEC (Kieso 7).

The CAP met to decide how to make the principles and it was decided that to formulate a statement of broad accounting principles would take too long and instead elected to use a problem-by-problem approach in which the committee would recommend one or more alternative ways to resolve a financial accounting or reporting problem. Between September of 1939 and August of 1959, this system introduced 51 Accounting Research Bulletins (ARB). Each ARB described one or more accounting or reporting problem that had been brought to the

committee's attention and identified accepted principles to solve the problem or problems.

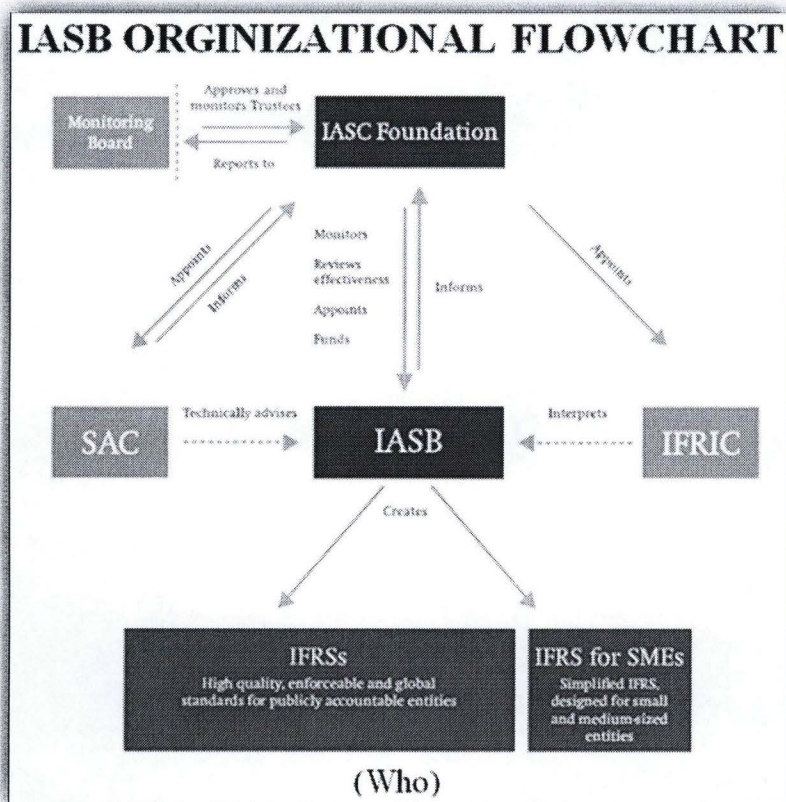
However, the problem-by-problem approach failed to develop the much needed structured body of accounting principles, so the AICPA created the Accounting Principles Board (APB) in 1959 (Kieso 7-8).

The APB replaced the CAP in September 1959 as the senior technical committee with responsibility for accounting principles and authority to issue pronouncements on accounting principles. The APB was originally envisioned as the instrument through which a definitive statement of accounting principles would finally be achieved. The APB issued a total of thirty-one opinions and in 1973 was dissolved. This is when the FASB was created (Kieso 8).

IFRS and IASB

The history of IFRS, though shorter, is just as important. It began around the same time as the FASB with the formation of the International Accounting Standards Committee (IASC). The committee's goal was to create and release standards that would improve financial reporting world-wide; these standards became known as the International Accounting Standards (IAS). The Standing Interpretations Committee (SIC) was created in 1997 to interpret the IAS. In 1999, the IASC Board was restructured to form the International Accounting Standards Board (IASB). During the restructuring the SIC was replaced by the International Financial Reporting Interpretations Committee (IFRIC). The IFRIC is responsible for not only interpreting IAS but IFRS. They also have the power to "provide timely guidance on matters not addressed by current standards" (U.S. 47). In 2000, the International Accounting Standards Committee Foundation (IASCF) was formed. Their responsibilities include: approving and budgeting the strategies, monitoring and reviewing, and fundraising for the entire IFRS standard setting and

interpretation community (Cook 1-2). The diagram below better illustrates the structure and order of the organizations.



Since the formation of the IASCF in 2000, IFRS and the IASB have steadily grown in importance and scale. The IASB and the IASCF state the rebirth of the IFRS movement began in 2002 with the European Union announcing the planned adoption of IFRS starting in January of 2005. IFRS 1, the first standard of the IASB, was issued in 2003.

Between 2003 and 2005, Australia, Hong Kong, New Zealand, and 7000 listed European businesses in 25 countries agree to adopt IFRSs. Brazil, Canada, Chile, India, Japan, and Korea create timelines to adopt/converge with IFRSs in 2007. This brings the total to over 100 countries that mandate or allow the use of IFRS. In 2008, Israel, Malaysia, and Mexico adopt IFRS and the U.S. releases a proposal for the adoption of IFRS (Who). The SEC's Chief Accountant, Conrad Hewitt, stated "that by 2011, over 150 will have adopted IFRS, and the U.S. will be the only major county not converted to IFRS" (Thomas 370). This statement summarizes one of the major reasons for the push for U.S. convergence, but what is the real story of convergence?

Convergence

For most of the world, the adoption of IFRS was a simple and almost overnight transition from a set of country specific standards to a set of global accounting standards. However, the United States already has a set of high-quality accounting standards that have not been demonstrated to be inferior to IFRS. Also, each country has modified IFRS in country specific ways that limit the goal of global comparability. Finally, serious concerns of the IASB's accountability and independence have been raised (Pounder 10). For these reasons, the transition for the U.S. is most likely going to be a convergence of U.S GAAP and IFRS and not just a simple switch. (These reasons will be discussed in further detail in the Pros and Cons section of the paper.)

However, convergence will not be the same for both publically held and privately held companies. Bruce Pounder outlines the possible scenarios for publically held and privately held companies in his book titled "Convergence Guidebook for Corporate Financial Reporting." He states that "for publicly held companies, the future is clear: U.S. GAAP will be replaced by a set of global financial reporting standards that will be very different from current U.S. GAAP" (Pounder 20). For privately held companies, Mr. Pounder describes three possible scenarios:

1. "Privately held companies will use the same global standards as publically held companies" (20).
2. "Privately held companies will have the option to use a version of global standards adapted specifically for private held companies" (21).
3. "Privately held companies will have the option to use a 'stripped down' version of U.S. GAAP" (21).

This paper will focus, for both publically held and privately held companies, on the scenario that involves the convergence of U.S. GAAP and IFRS and the resulting accounting standards that will be developed.

The first serious step towards this convergence began on September 18, 2002 in Norwalk, Connecticut during a joint meeting between the FASB and IASB. In the agreement, both boards

“acknowledged their commitment to the development of high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting [and ...] pledged to use their best efforts to (a) make their existing financial reporting standards fully compatible as soon as practicable and (b) to coordinate their future work programs to ensure that once achieved, compatibility is maintained” (Memorandum of Understanding 1).

Since the “Norwalk Agreement”, the FASB and ISAB have issued updated memoranda twice, once in 2006 and again in 2008. Both memoranda reaffirmed the organizations’ commitment to convergence, established short-term and long-term goals for convergence, and provided a progress report on completed and on-going projects (International Convergence).

In 2007, the SEC took a major step towards IFRS with the elimination of the reconciliation requirement. This ruling stated that the SEC would allow financial statements of foreign entities made in accordance with IFRS to be filed without requiring the conversion to U.S. GAAP (Acceptance 1). During the same year, the SEC issued a Concept Release that asked for public input on whether the Commission should allow certain U.S. publically held companies the choice of filing financial statements made in accordance with IFRS. The FASB quickly responded by stating that though the board supported the use of IFRS, the board would

not support permitting the optional use of IFRS without a planned adoption by all SEC registrants (International Convergence).

On November 14, 2008, the SEC finally issued their “Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers” for public comment. The roadmap provided milestones for the adoption of IFRS and criteria for the optional early use of IFRS by U.S. companies as early as December 15, 2009 (Roadmap 10). On February 24, 2010, the SEC issued the “Commission Statement in Support of Convergence and Global Standards,” which restated its continued support for the convergence of U.S. GAAP and IFRS and the possible use of IFRS as early as 2015 or 2016 for U.S. companies (Roadmap 1, 15, and 23).

Pros and Cons

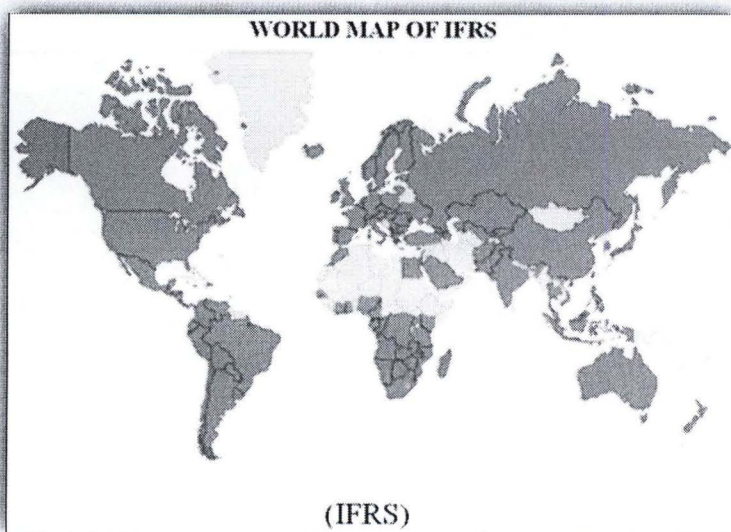
Since the SEC released its proposed roadmap, there has been a growing debate on whether the U.S. should follow the rest of the world and switch to a different system of accounting standards (Langmead and Soroosh 24). This section will present both sides of this debate and analyze the arguments.

Pros

As mentioned before, the FASB is supportive of “a single set of high-quality common standards developed by an independent, international standard setter” (International Convergence). Many individuals around the world share this same view and provide three major reasons for convergence of U.S. GAAP and IFRS:

- “The global use of a single set of high-quality, country-neutral standards would enhance the comparability of financial reports across all enterprises worldwide” (Pounder 14).
- “The enhanced global comparability of financial reports would make capital markets throughout the world more efficient, that is, investors and creditors would be able to consider a much broader range of opportunities when making capital allocation decisions, which would in turn increase the likelihood of optimal capital allocation” (Pounder 14).
- “Greater efficiency in the world’s capital markets would (1) improve investors’ and creditors’ return; (2) make our economy as a whole more efficient at satisfying people’s needs and wants; and (3) stimulate greater investment in enterprises as a result of lowering costs of capital at all levels of risk. And greater investment in enterprises would stimulate growth, which would in turn result in further widespread economic benefits such as job creation” (Pounder 14).

Comparability of financial reports across entities worldwide is one of the major driving



forces for the use of IFRS. IFRS has been or is scheduled to be adopted in over 150 countries, including the European Union, Canada, India, Korea, Japan, and China (Thomas 369-370). The map on the left summarizes data collected during January 2010

regarding “the use of, or conversion plans to, [IFRS] by domestic listed and unlisted companies by country/territory” (IFRS by Country). This illustrates how wide-spread the use of IFRS has become in the world and how the U.S. might isolate itself without global comparability.

It is also important to note that global comparability can equate to increases in efficiency within the world’s capital markets. For example, a retired elementary school teacher from England can better analyze a company in London and a company in Rio de Janeiro, Brazil, because there is no longer a need to reconcile the two financial statements. This reconciliation in the past was difficult and required an extensive knowledge of both systems of accounting. This gives the company in Brazil that might have been the superior investment a better chance. If the school teacher does choose the Brazilian company then this is the definition of optimizing capital allocations on a global scale. Without convergence, the U.S. is at a distinct disadvantage.

The greatest benefit of IFRS for U.S. companies, both public and private, is the cumulative effect of global comparability and efficiency in world’s capital market. The cumulative effect means that the optimization of capital allocation increase returns for investors and creditors. It also leads to lower operating cost for IFRS companies on several levels including accounting costs and compliance costs (Pounder 16). This reduction has occurred due to increased competition of financial reporting labor markets based on the reduction of country specific accounting standards and the globalization of the talent (Pounder 181). Thus, a multinational company can benefit from cost savings if it is able to use one set of accounting standards across all business divisions and a small, privately held domestic company can benefit from the lower cost of hiring auditors from anywhere in the world. In the end, the increased return and lower operating cost lead to even greater investments in enterprises and in turn result in further economic benefit (Pounder 14).

Cons

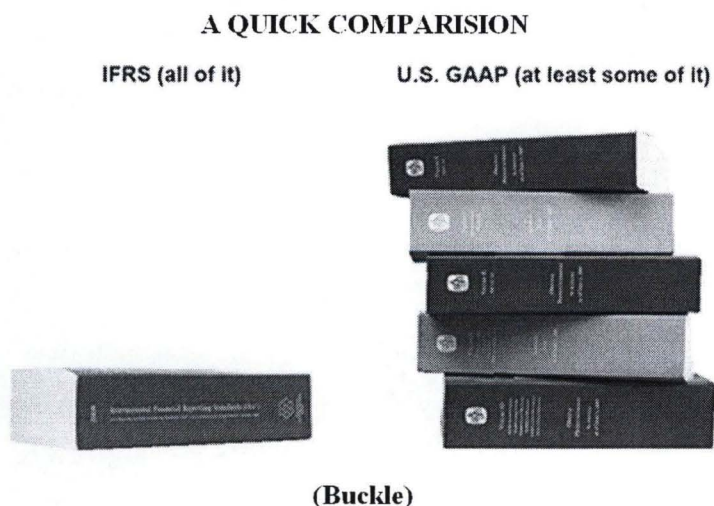
On the other side of the debate , Robert Rapp and Eric Zell, partner and associate, respectively, with Calfee, Halter & Griswold LLP, state that the main issues that need to be resolved are “improvements in accounting standards; assuring the accountability and independent funding of the international body charged with overseeing the standards-setting function [IASB]; education and training of those involved in the preparation of financial statements to increase awareness of the differences between U.S. GAAP and IFRS; [... and] determining the most effective approach [for convergence]” (Rapp and Zell 1). The remaining part of this section will discuss these issues in detail.

Improving accounting standards, which has been the goal of the FASB and IASB, is one of the main pushes for convergence. Christopher Cox, SEC chairman, has stated that the interest of investors is key in considering IFRS convergence and that “accounting standards should promote clarity in terms of both understanding an issuer’s performance and financial condition and the comparability of information with other companies” (Rapp and Zell 2). A push for a world-wide system of accounting that would allow easy comparison of businesses around the world and that would improve the quality of accounting standards overall is a noble idea. However, accounting differences exist between most countries that have already adopted IFRS. The reason is that countries modify and create their own versions of IFRS (Rapp and Zell 2). The end result is incompatibility and a lack of a unified global standard.

Many view the IASB and other IFRS organizations as highly independent, global organizations that are separate from the political strife that occurs around the world. The International Accounting Standards Committee Foundation, appointed in 2000 was formed to ensure that a balance international representation was maintained to govern IFRS (Cook 1).

However, in 2008 the IASB modified IAS 39 in response to a threat from the European Union. The modification of a major International Accounting Standard “without public comment and by suspending normal due process” caused many to question the IASB’s accountability and considerably weakens the view that the IASB is an independent organization (Rapp and Zell 2).

The third major issue deals with the differences between U.S. GAAP and IFRS in the areas of classification of debt and equity, revenue and expense recognition, and consolidation (Rapp and Zell 3). There are major discrepancies between the two standards in these areas, but the true difference between IFRS and U.S. GAAP is much broader. IFRS is generally less rule-based and more principle-based than U.S. GAAP (Langmead and Soroosh 29). For example, U.S. GAAP is comprised of over 1,000 pronouncements, with some ranging in excess of 100 pages. IFRS only consists of “41 IAS Standards, 11 SICs, eight IFRS standards, and 14 IFRIC interpretations” (Thomas 371). This means that U.S. GAAP is around 22,600 pages longer than IFRS. This difference is easily visible in the image below.



This difference has far reaching effects on the business world. If the convergence is focused more towards IFRS, which contains fewer explicit guidelines for each circumstance, accountants and management will be required to use more professional

judgment and expertise (Tribunella 33). The “SEC [and the world are] most interested in moving towards such a principles-based set of standards” for the benefit of the business world (Thomas 371-372). In our opinion, a more principles-based set of standards opens the doors for

abuse and corruption. This has already been seen in companies that use accounting standards with specific guidelines in place.

With these issues and differences aside, the biggest concern for the convergence of the two standards is determining the most efficient and cost effective approach to implementing the actual convergence (Rapp and Zell 1). The IASB, in 2003, issued IFRS 1 which provides guidelines and rules for companies during adoption of IFRS (Langmead and Soroosh 25). However, it is unlikely these provisions will be helpful to U.S. companies due to the unique convergence of U.S. GAAP and IFRS. Even if these provisions were helpful, U.S. companies will face substantial costs due to convergence. For example, the first year of transitioning to a different standard would require a substantial increase in paperwork. The SEC's *Roadmap* states that U.S. companies could spend from 5,277,000 hours to 5,662,000 hours in preparing additional documents. U.S. companies could also face 1,696,000 hours to 1,887,000 hours in outside professional cost. With an average cost of \$400 per hour this could cause companies to incur expenses of \$703,671,000 to \$754,983,000 in outside professional costs alone (Roadmap 119-120). Overall, the SEC's current proposal for adoption of IFRS assumes that 110 U.S. companies will elect to switch from U.S. GAAP to IFRS. These early adopters will incur costs between 0.125% and 0.13% of revenues during the first year of transition (Roadmap 117-8). This means "approximately \$32 million dollars per company" (Roadmap 130). Assuming only this minimum number of companies adopt IFRS, the conversion cost could be almost \$3.5 billion in the first year alone (Roadmap 130-131) and "at least \$8 billion for the entire U.S. economy as a whole" (Hail, Leuz, and Wysocki 41). This would be a substantial burden on an already shaky economy.

Preparation

A change of accounting standards is definitely going to happen. While it has not yet been determined how the accounting standards are going to change, it is still important to begin the preparation process now. This section will analyze how entities are preparing for convergence, and suggest what entities should be doing. (For the purpose of this paper, CPA Firms have been included into “Other” because of their dual responsibility of running a business and advising clients about preparing for IFRS).

Publicly Held Companies

Preparation for IFRS is extremely important for publicly held companies. It is an inevitability that the accounting standards are going to change from U.S. GAAP to either IFRS or some convergence between U.S. GAAP and IFRS. There are many steps publicly held companies can take to prepare for the impending change of accounting standards.

To begin, top accounting executives can begin the analysis by acquiring a basic knowledge of IFRS. This should include the major differences between U.S. GAAP and IFRS. The top accounting executives should also read different sets of IFRS financial statements that were prepared by companies in the same industry. When this basic knowledge of IFRS has been established, accountants will then be able to start thinking about how their companies’ accounting policies and procedures need to change. This will help to identify the most critical areas, thus allowing companies the capability to distribute their resources properly (Ruggiero 2).

Hiring outside experts can help drive the preparation process. These experts can perform a meticulous account-by-account diagnostic to identify all U.S. GAAP to IFRS differences. This can help the top executives identify some of the major areas likely to be affected by a switch in

accounting standards. This will also help to establish a decision tree to assist the company in understanding each step involved in the process of adopting new accounting standards (Ruggiero 2).

Keeping the board of directors educated on all IFRS matters can be a critical step in preparing for the switch. The board of directors will also need to know about any major developments with the impending convergence. When the United Kingdom was adopting IFRS, the companies that waited until the last minute to prepare had a tendency to lose some of the value of their stock. Allowing the board of directors to stay in the loop should help to keep investors from becoming nervous about any consequences of convergence and in turn lowering the stock price (Ruggiero 3).

Waiting to develop a project plan could be a dangerous mistake. Now is the time that companies need to develop their project plans and think about what resources the company is going to need. Companies that are developing a plan need to think about whether the accounting system they currently employ should be replaced or retrofitted for IFRS. On top of that, companies need to decide to what extent their subsidiaries should adopt IFRS. While all of that is being done, it is very important that executives monitor what is happening so when a change in IFRS standards or convergence occurs, the plan can be changed in a timely fashion. This would help to prevent errors that could occur and potentially make the business miss a deadline for adjusting accounting standards (Ruggiero 3-4).

It is important for companies to realize that the presentation of financial statements is going to change dramatically. Rebecca Albarelli, Global Practice Leader at Jefferson Wells International, said that the following are questions companies need to ask themselves:

“How you account for business combinations, consolidation, inventory, how you value assets and liabilities, leases, taxes—the list goes on and on. Where are the opportunities, and where is the biggest negative impact? Where would the most time be required?”

Executives need to know the answers to these questions to be able to understand just how much the financial statements are going to change. Without this knowledge the executives may be surprised by what they see (Whitehouse 2).

A change in accounting standards is going to affect more than just the financial statements. It will have an effect on customers, vendors and investors. When the accounting standards change, the financial statements and the numbers on them are going to change. Customers, vendors, and investors are going to see the new financial statements and are going to be affected by it. They may like the new numbers or may be scared away by them. Either way it will affect them all. It is important to realize that this could happen and to plan for it (Dohrer 3).

And lastly, it is crucial for companies to take advantage of the amount of time they have to prepare. This time could help companies implement a switch of accounting standards with minimal negative effects. Because the complete adoption of IFRS or the convergence with IFRS is certain, businesses need to make sure they are ready for any developments. One way to do that is to utilize all the extra time the companies have (Preparing for IFRS 31).

Properly preparing for the accounting standards switch can help publicly held companies get an advantage over rivals. Christopher Craig, Audit Partner for Grant Thornton said,

“The ultimate cost of adoption for companies that [take a wait-and-see approach] will be much higher than for companies that begin to pay attention now and understand that adoption is a process, not an event.”

While rivals are stumbling trying to make the transition, companies who prepared will have a much smoother transition (Ruggiero 1). For publicly held companies, preparing now for IFRS is vital; it is not so simple for privately held companies.

Privately Held Companies

For privately held companies, preparing for IFRS can seem worthless. For one, it has not yet been determined if privately held companies will be at all affected by the transition to or convergence with IFRS. It is still undetermined if privately held companies will be forced to change or if they will have a choice on whether to change or not. However, much like with the publicly held companies a wait-and-see approach may not be a great idea.

Privately held companies are in a unique situation. They know that something is going to change, but are unsure as to what, if any, effect it will have on them. At the very least, privately held companies need to get a basic understanding of IFRS. They need to learn some of the major differences, and if they do business with any publicly held companies they need to learn what effect the switch may have on them (Ruggiero 1). This will help in the preparation process.

Privately held companies should learn how the financial statements are going to change as well. This will help businesses to understand what financial statement output changes are likely and then work with all the affected parties to minimize the impact of the changes (Dohrer 4). They need to learn how accounting systems and information gathering should change to support the new requirements. They also need to investigate how much training is going to be needed in order for the correct employees to learn and understand a new accounting system

(Whitehouse). This is going to help privately held companies get an idea of how much it is going to cost for them to switch.

There are many reasons why privately held companies need to start investigating IFRS now. One of the main reasons is that there may be incentives for switching to IFRS early. The incentive may be that you have an edge on your competition that may not be prepared to switch early. There also may be an incentive from the government, such as help with the switch over or a tax break, for privately held companies that switch their reporting to mirror that of IFRS (Preparing for IFRS 30).

All business, whether small or large, public or private, will experience some difficulty in the transition. It would be incredibly naïve to assume that a business can smoothly transition by sitting back and watching other companies attempt to switch. As stated in the publicly held company section, businesses have a lot of time to investigate and prepare for a switch. All businesses, public and private, need to take advantage of the time they have in order to properly prepare for IFRS; otherwise they risk being left behind (Preparing for IFRS 31). Publicly and privately held companies are not the only entities that are going to be changed by convergence and are not the only entities needing to prepare for convergence.

Other

IFRS is not just going to affect businesses. It is going to change how CPA firms do daily business, it will change accounting education curricula, and it will change the layout of the accounting professional organizations within the U.S.

CPA firms are going to be the driving force behind the preparation for IFRS. They are going to help their clients prepare and transition into a new accounting system. This is one reason why it is so important for CPA firms to learn IFRS now. It does not matter whether it is a

“Big Four” accounting firm (Deloitte, Ernst & Young, KPMG, and PricewaterhouseCoopers) or a firm with just one CPA, the sooner they learn IFRS the better. IFRS is going to require a substantial intellectual retooling in regards to current CPAs, most of which have little to no IFRS background (Preparing for IFRS 30-31). CPA firms need to learn IFRS in order to help clients and themselves.

The “Big Four” have already started with internal training for IFRS. The minute the topic of convergence came about they got a training program underway. Currently Deloitte offers a crash course in IFRS training. This course includes “e-learning” and instructor led classes. D.J. Gannon, a partner at Deloitte, predicts that by 2011 all of the Deloitte employees should be trained in IFRS (Preparing for IFRS 31).

When to train for IFRS is not as easy for middle and small sized firms as it is for larger accounting firms. If employees in middle and small sized firms are trained too early, the skills may go unused and then deteriorate. This is not a problem for larger firms because most of them have clients with international subsidiaries or have a need to have financial statements reported in IFRS. This helps to keep employees in larger firms up to date with their IFRS knowledge and skills. Gary Illiano, partner-in-charge at Grant Thornton CPA firm, says that if middle and small sized firms choose to train early, they will need to give their employees a strong initial training with recurring training every few months in order to maintain skills (Preparing for IFRS 30-31).

CPA firms have an important job to do in regards to convergence. Between educating themselves and answering questions from curious clients, CPAs will have their hands full. U.S. universities are going to have an equally large part in the convergence.

Besides the apparent benefits and costs associated with the convergence, the need for education is one of the biggest hurdles. During this transition period, accountants, managers,

auditors, regulators, and investors would need to be proficient in both U.S. GAAP and IFRS.

For colleges, this means an increased focus on IFRS in the curriculum. Accounting departments need to start adding courses focused on IFRS (Thomas 374-375).

One of the most important things for the successful switch into a new accounting system would be to train the next generation of CPAs to apply IFRS accounting standards. Even if there is not a complete transition to IFRS, there is almost guaranteed to be at least a convergence with IFRS. This would mean that students would need to be proficient in at least parts of IFRS if not all of it (Accounting Schools Retooling for IFRS). This would help in cutting down the cost for businesses to train employees in new accounting standards.

Many universities have embraced this change as a way to further the education of many up-and-coming accountants. Rama Ramamurthy, accounting professor at William & Mary's Mason School of Business, devoted eight weeks of her graduate class to IFRS. She found that her class was very receptive to the material and more than happy to learn it. This paved the way for some undergraduate level classes to give students a taste of IFRS. Ramamurthy now teaches a class devoted entirely to IFRS (Accounting Schools Retooling for IFRS).

Graduate students at the University of Denver's accounting school have seen some IFRS as well. They were given a large dose of IFRS in a case study class, according to Ron Kucic, the school's director. The case study class used many of the resources published by the "Big Four" on the topic of IFRS and convergence (Accounting Schools Retooling for IFRS).

University of Southern California's Leventhal School of Accounting has a plan in the works to "...completely redo our curriculum in the master's program..." They are going to pay special attention to IFRS and what the accounting world may look like after IFRS has become the main accounting standard for the world (Accounting Schools Retooling for IFRS).

What Williams & Mary's Mason School of Business, University of Denver's accounting school, and University of Southern California's Leventhal School of Accounting are doing is exactly what all major universities should be doing. Preparing the next generation of accountants is critical in helping to make the transition as smooth as possible.

Professional organizations will have to make changes when the new accounting standards take effect. The AICPA is not wasting any time and has already started to make changes. The first and most significant change is the decision to add IFRS in the CPA examination. The AICPA saw the impending changes in accounting standards and chose to act swiftly. Beginning in January of 2011, the CPA examination will feature questions regarding IFRS (American).

The AICPA has also launched a website dedicated to IFRS. IFRS.com was launched to provide a,

“...comprehensive set of resources related to International Financial Reporting Standards for accounting professionals, financial managers, audit committees, boards, investors and other users of financial statements.”

The launch of this website shows that the AICPA is ready and preparing for IFRS (International Financial).

One of the biggest questions regarding professional organizations is what will become of FASB? This is a question that nobody seems to have an answer. There are many different opinions on what should happen to FASB and will happen. One opinion is that the FASB will remain intact, but will have an advisory role to the IASB or other organizations in charge of setting new standards. Another opinion is that the FASB may be an advisor to private businesses. The only thing that is certain is that FASB in its current state will no longer exist. The FASB will either be changed or cease to exist completely (Pounder 41).

Whether it is a publicly held company, privately held company, or anything else, convergence is going to have an effect. Convergence is as close to a sure thing that can be found in the business world. All entities need to start the preparation process now.

Closing Remarks

From the creation of the SEC in the Securities Act of 1934 to the present day, the history of U.S. GAAP is a long journey spanning many decades. Though the story of IFRS is not quite as long, it is no less important. The creation of the IASC in 1973 was the beginning of a new way of thinking for accounting standards and a goal of creating and releasing standards that would improve financial reporting world-wide has slowly caught on. In the U.S. the step towards this goal began with the Norwalk agreement and continues to this day.

Since the "Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers" was first issued in 2008, the debate on whether the U.S. should converge with IFRS has grown even stronger. Both sides provide compelling reasons for their cause.

Overall, several benefits would arise from the convergence of U.S. GAAP and IFRS. With the convergence of IFRS in the United States, companies would see an increase in "efficiencies, simplification, and cost savings" (Thomas 373). The adoption would also lead to more transparent and comparable financial statements between U.S. corporations and other international corporations. Many predict that this comparability would increase foreign investment in local companies, enhance reporting quality, and decrease cost of capital. This would "encourage strong, stable, and liquid capital markets" world-wide.

However, IFRS has been modified into standards distinctive to each country. There is also serious doubt about the accountability and independents of the IASB because of the modification of IAS 39 without due process. The more principle-based system of IFRS also places serious concerns on whether IFRS has the ability to limit abuse and corruption. Yet, the biggest concern is the overall cost of converging with an accounting system that is still in the infant stages of development (Thomas 373). The SEC states that the convergence of U.S. GAAP to IFRS without a resolution to SEC's milestones and without careful consideration and due process could spell disaster for the United States (Commission).

Preparation for IFRS should be on the top of the agenda for not just publicly held companies, but for privately held companies, educational institutions, and professional organization. Preparation could be the difference between maintaining a company's position in the market and falling to the bottom. It is a certainty that the public companies will have a change in accounting standards within the next decade or two, so they especially need to be getting ready.

Even though the future is nowhere near certain for privately held companies, this does not excuse them from preparing. Thinking that a switch in accounting systems would have no effect could be an incredibly dangerous state of mind. Just like publicly held companies, privately held companies could be left in the dust without the proper preparation.

Educational institutions and professional organizations need to be preparing as well. Colleges and universities have a responsibility to train the future CPAs in the U.S. and neglecting to prepare for IFRS will leave some students without a strong knowledge basis to help not only them, but the companies they work for. Professional organizations have a responsibility to prepare for IFRS as well. These organizations are looked up to by business people and CPAs

alike to keep them informed about any current accounting news. Without the right preparation, CPAs could miss out on vital information when they need it most.

IFRS was founded on the principle of creating a world-wide reporting system. Over the last decade the idea has steadily grown, and has finally culminated in the U.S. movement towards a more principle-based system. The United States has established a road map and timelines for convergence and has begun training the business world for the convergence. Though the road ahead is still uncertain, it is clear the movement and/or convergence of U.S. GAAP to IFRS will have an impact on the business world for years to come.

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Appendix

The culmination of our project was a presentation to the Muncie Small Business Council on April 21, 2010. The presentation provided an overview of our thesis paper and was followed by a short question and answer session. This appendix will provide insight into how each of us felt during the preparation and during the actual presentation. The appendix will also have slides that we used in our presentation.

Trent Carnes

The notion of presenting to local businesses was quite nerve racking, and the fact that these individuals were prominent members of the business community and had years of experience compared to my few years of accounting classes made the situation even worse. However, I was also looking forward to possibly helping the local business community in preparing for the upcoming changes, but I had no idea if they would listen.

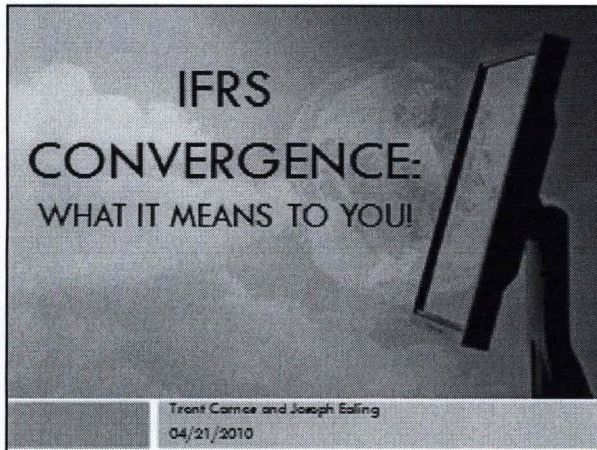
The day of the presentation came quickly, yet I had hoped I would have more time to prepare. The overall presentation went ok, and I was nervous waiting for their reaction. It did not take long for the first of many questions to arise, and I was surprised at how prepared Joe and I were them. In the end, I felt that Joe and I did provide some needed help to the local business community and they were glad to listen.

Joseph Ealing

When we first learned that we would be giving a presentation to the Muncie Small Business Council I was excited. As the time came for us to prepare for the presentation, I was still just as excited. I knew that preparing for the presentation was not going to be the hard part. I just had to take what I had already researched and turn it into a ten minute presentation.

Making the presentation is what I was a little nervous about. We were going to be presenting to men and women in the business world, including some CPAs; this made me very nervous. I was also unsure about whether they were going to care. I thought that they would just let us present and get on with their meeting. However, after we were done presenting we were asked many questions. This made me feel a lot better about the presentation and made me feel excited that the Small Business Council actually paid attention and cared about what we presented. Overall I walked away very pleased with how Trent and I did with the presentation.

PowerPoint Slides



Brief Overview
▪ History and Responsibility
▪ Pros and Cons
▪ Preparation
▪ Closing Remarks

History and Responsibility
▪ U.S. GAAP and FASB
▪ IFRS and IASB
▪ Convergence

Pros and Cons
▪ For Convergence
▪ Against Convergence

Preparation
▪ Publicly Held Companies
▪ Privately Held Companies
▪ Other

Closing Remarks
If anyone would like a copy of the complete paper, please feel free to email one of us.
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Thank You!!!